nu-gro

1998 Nu-Gro Annual Report

A c c e l e r a t i n g...

Accelerating Growth

A MESSAGE TO OUR SHAREHOLDERS

Over the past three years we have been laying the foundation at Nu-Gro for long term growth and increased profitability. We are pleased to report once again a substantial 50% increase in revenues in our fiscal year ended September 30, 1998 and a record $4.8 million in net earnings, which represents a 75% increase over the prior year.

In Fiscal 1998 we took significant steps toward accomplishing two of our most important long term strategic goals:

- Increasing our critical mass in our Canadian consumer products business, creating a stronger base from which to expand through acquisition and internal growth.
- Strengthening our position as a leading world producer and marketer of controlled release nitrogen and other specialty fertilizers for the turf and specialty agricultural markets.

Austin C. Beutel,
Chairman

The year's most significant event in our consumer packaging segment occurred on March 31, 1998 when Nu-Gro increased its ownership in Wilson Laboratories Inc., from 20% to 100%. Wilson is a leading national brand manufacturer of pesticide and fertilizer products with annual sales in excess of $25 million. The combination of our companies, who share the C-I-L brand and the same customer base, has created exciting new opportunities in the marketing and distribution of consumer and professional products in Canada. The packaging in our C-I-L consumer line was upgraded last year and the product line was expanded, which resulted in sales increases that exceeded our own expectations.

The integration of Wilson Laboratories into Nu-Gro is progressing on plan with all of our sales, marketing and administration efforts now combined. We are looking forward to the efficiencies we expect to gain working as one unified team. With the demographics favouring leisure activities such as gardening and golf, we see exciting internal growth for our lawn and garden business in Canada, as well as many acquisition opportunities arising from an industry going through a period of consolidation.

Our fertilizer raw material business had a series of events in fiscal 1998, when combined, will increase our revenue in this segment by approximately 50% in the coming year.

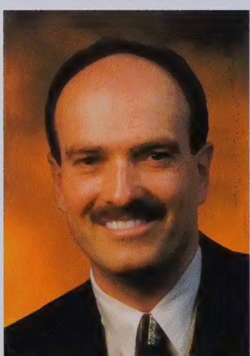
- On April 30, 1998 Nu-Gro increased its ownership in Nu-Gro Technologies, Inc. from 80% to 100% which has allowed the company to consolidate sales, marketing and administration efforts in the controlled release nitrogen segment.
- On August 31, 1998 Nu-Gro completed the purchase of the assets associated with the Isobutylidene Diurea ("IB Nitrogen") controlled release nitrogen business from IB Chemical Company which was owned by subsidiaries of Celanese, Mitsubishi Chemical and Mitsubishi Corporation. The business is based out of Mobile, Alabama and represents an extension of Nu-Gro's production and sales activities in controlled release nitrogen, adding the Mobile facility in Alabama for IB Nitrogen, to the Gloversville facility in New York for Nutralene®, the Louisiana facility in Missouri for Nitroform® and the Courtright facility in Ontario for S.C.U.®


G r o w t h

- Effective October 1, 1998, Nu-Gro announced that it will strengthen its control of the sales and distribution of Nutralene® which Scotts has successfully marketed since October, 1996. In addition Nu-Gro will be the exclusive distributor of Scotts' Polymer Sulphur Coated Urea (PSCU) controlled release nitrogen to the blender trade in North America.

These corporate moves in our fertilizer raw material business will enhance Nu-Gro's position going forward as a leading world manufacturer and distributor of controlled release nitrogen.

Nu-Gro's vertical integration into controlled release nitrogen production has proven to be a wise strategic move. Increased government restrictions in environmentally sensitive areas as well as the overall gardening and golfing boom bode well for long term growth in our controlled release nitrogen business. Proprietary technology, strong brands and a wide range of products will enable Nu-Gro to meet the specific needs of our customers and the environment, today and in the future.



John D. Hill,
President & C.E.O.

The past three years have been a period of dynamic growth for Nu-Gro and last year we initiated a new information systems project. The increased size and complexity of our business combined with the "Year 2000" issues have made this project a high priority. We are pleased to report that we are well on our way with the implementation and expect to have the project completed by the summer of 1999.

The growth that we have experienced could not have been attained without the willingness to take on new challenges and dedication of our senior employees. We are pleased to announce the promotion of Sheldon Witte to Chief Operating Officer of our Canadian Consumer Group and Greg Flanagan to Chief Financial Officer of the company. In 1998 we also added three new officers who will be instrumental in Nu-Gro's future success. Sherry Stewart has been promoted to Vice-President Human Resources (Nu-Gro Corpor-ation), John Latosinszky to Vice-President of Operations (Nu-Gro Consumer Group) and Jay Pollack who was hired as Vice-President of Marketing (Nu-Gro Consumer Group). We wish them all the best in their new roles.

In conclusion, Nu-Gro will continue to focus on enhancing shareholder value. The past year has brought considerable change, and we wish to extend both our congratulations and sincere thanks to our customers, our employees and members of our board of directors. Their commitment and willingness to take on new opportunities as they arise have helped to make Nu-Gro a company that we can all be proud of.

Austin C. Beutel, Chairman

November 18, 1998

John D. Hill, President & C.E.O.

C O R P O R A T E   G R O W T H

HILLVIEW | Putnam Plant | Cold Springs Agri Services | C·I·L | Omnicology

1988
Nu-Gro.
Initial Public Offering.
Purchased Hillview Farms.

1989
Formed a Joint Venture
with Cold Springs
Agri Services.

1990
Bought out Cold Springs
Agri Services.

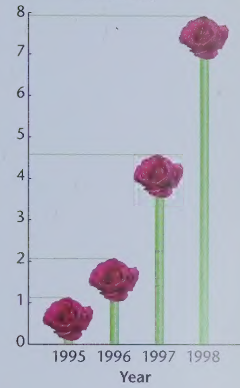
1991
Bought C-I-L Canadian Lawn
& Garden business. Creates
national distribution.

1995
Vertical integration into
fertilizer raw material w
purchase of Omnicolog

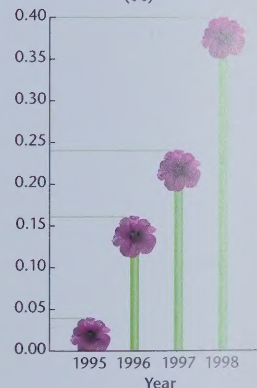
1998 HIGHLIGHTS

Total Nu-Gro
Sales By Business Segment

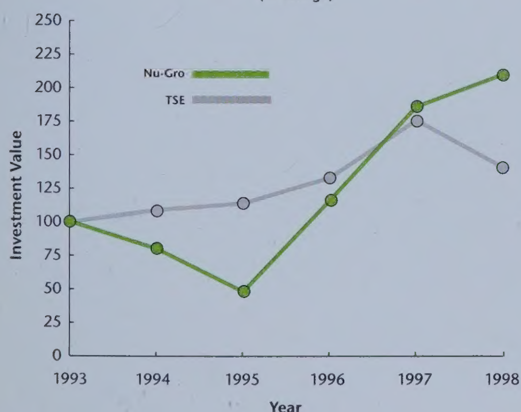
Cash Flow
($ millions)



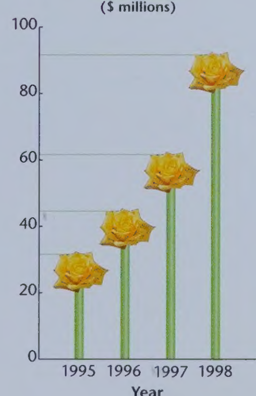
Earnings Per Share
($'s)



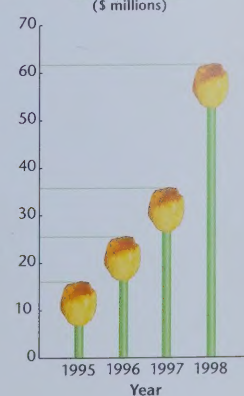
Comparisons of the Five year
Cumulative Total Shareholder return on
Common Shares of Nu-Gro and the TSE
(% change)



Sales
($ millions)



Total Assets
($ millions)



Nutralene

SCU

wilson

IB Nitrogen

PSCU

1996
Acquired Nitroform, Nutralene® brand names (products used in turf

July 1996
Sold C-I-L pest control line to Wilson for a 20% equity interest

October 1996
Sulphur Coated Urea facility acquired from Terra international, Inc., Courtright, On

April 1998
Increased ownership from 20% to 100% in Wilson Laboratories

August 1998
Acquired assets to operate IB Nitrogen.

October 1998
PSCU Scotts

Controlled Release Nitrogen Location and Breakdown

Nitroform

Golf courses love it! It feeds the plants and soil up to 12 months.

Nutralene

A safe, non-burning slow release nitrogen that feeds 8-16 weeks.

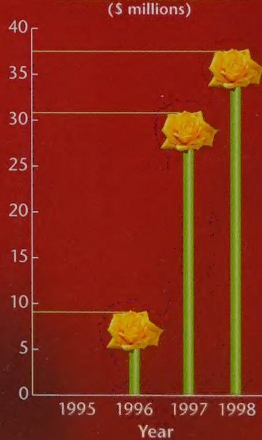
SCU

A low cost slow release nitrogen used primarily for home lawns.

IB Nitrogen

The perfect slow release nitrogen suited for turf and plants that are under irrigation.

Raw Material Total Sales
($ millions)



New Growth For Nu-Gro

NU-GRO ACQUIRES IB NITROGEN, STRENGTHENING ITS RAW MATERIAL BUSINESS.

The recent acquisition of the Isobutylidenediurea ("IB" Nitrogen) controlled release nitrogen business from IB Chemical of Mobile, Alabama strengthens Nu-Gro's position as a market leader in the North American controlled release nitrogen business.

Nitroform

Nitroform is a controlled released nitrogen. It is manufactured by reacting urea nitrogen with formaldehyde to provide a slow release nitrogen which can last as long as 8 to 12 months. Healthy soil requires a high population of microbes, and Nitroform is actually consumed as a nutrient and energy source by bacteria in the soil. A small percentage of the nitrogen is immediately made available to plants through water solubility, and the balance gradually released through the continual digestion of Nitroform by soil microbes. Primary use is by professionals in high value applications such as golf courses and specialty agricultural crops. Nitroform is produced in Louisiana, MO.

Nutralene

Nutralene offers many of the same soil benefits as Nitroform, but to a lesser extent. While Nutralene is produced in a similar reaction to Nitroform, it provides a much higher percentage of the nitrogen through water solubility. The result, and main advantage, is a slow release nitrogen feeding for 8-16 weeks with minimal risk of burning. This combination of dependability and safety makes Nutralene ideally suited for the Professional Turf / Golf Course application. Nutralene is produced in Gloversville NY.

SCU and PSCU

SCU is produced by applying a coating of molten sulfur on heated urea granules, then adding an additional sealant to improve the integrity of the coating. In much the same way as encapsulation permits slow release of cold medication, this double coating provides a physical barrier for the urea, which is then slowly broken down by moisture, microorganisms and abrasion. Although SCU is very effective, it is not quite as predictable as reacted products like Nitroform and Nutralene. However, the coating process is considerably less costly than a reaction process, making SCU very popular in the lawn maintenance business and in consumer lawn fertilizers sold through the lawn and garden retail industry. SCU is produced in Courtright, ON. PSCU is produced in Marysville, Ohio.

IB Nitrogen

IB Nitrogen is another reacted urea-based slow release nitrogen. It is totally dependent on moisture for release and is therefore ideal in situations where turf or ornamentals are under irrigation. Unlike Nitroform, IB Nitrogen has none of the benefits of soil microbe enhancement. However, it is a very safe nitrogen source to use in high maintenance turf (e.g. golf greens) and the professional horticultural market. IB Nitrogen is produced in Mobile, AL.

A Strong New Partner

WILSON STRENGTHENS NU-GRO'S LINE OF CONSUMER PRODUCTS

With the acquisition of Wilson Laboratories in April 1998, Nu-Gro now offers the broadest range of lawn and garden products, including the leading national brand of premium quality C-I-L fertilizers and the leading brands of C-I-L and Wilson pest control products.

Wilson Labs was a privately owned national manufacturer of over 500 pesticide and fertilizer products with annual sales in excess of $25 million. The combined strengths of both Nu-Gro and Wilson creates tremendous opportunities in both the marketing and distribution of premium quality products for the lawn and garden industry.

Consumer Fertilizers

Nu-Gro's fertilizer blending plants, which are strategically located in all regions of Canada, efficiently produce high quality products in an array of package sizes and formulas to meet the specific needs of various markets and consumer preferences. With C-I-L Golfgreen™ leading the way as the country's most recognized brand of lawn food, the combination of C-I-L and a significant volume of private label fertilizers makes Nu-Gro Canada's #1 supplier of lawn and garden fertilizers.

Consumer Pest Control Products

Nu-Gro has close to 300 product registrations, which is significantly more than any other competitor. Together, C-I-L and Wilson boast market share leadership in both consumer and professional pest control markets. Our leading brands include TRI-KIL®, WipeOut®, Bug X® and Pow-R-Gro.

Horticultural Products

Nu-Gro is one of Canada's largest recyclers and composters, producing an extensive line of indoor and outdoor soils, manures, ground covers and soil amendments from our two regional plants. Our brands include C-I-L, Hillview™, and Mother Earth®, as well as a variety of high profile private label products.

Cat Litter

Nu-Gro is an influential force in the Canadian cat litter industry. In addition to producing our own brands in a variety of sizes and ingredient combinations (Kitty Comfort® and Natural Select®), we also provide private label products for many major retailers across Canada. Improvements that are enabling us to meet and exceed consumer expectations include scenting or incorporating anti-bacterial formulations. We are in the process of expanding into a line of natural products to augment our traditional clay products.

Consumer Product Breakdown

Fertilizer

For healthy, greener lawns – more C-I-L Golfgreen™ fertilizers are sold than any other brand in Canada.

Pest Control Products

From spiders and earwigs to weeds, ants and mice – C-I-L and Wilson products help control pests with more products than any other manufacturer in Canada.

Horticulture

Whatever the gardener's needs – from indoor and outdoor potting soils to barks and mulches, Nu-Gro products make things grow better.

Cat Litter

Cat litter in traditional, clumping and anti-bacterial blends offers consumers a choice to fit their needs.

Professional Product Breakdown

Professional Turf Fertilizers

More golf courses use one or more fertilizers produced by Nu-Gro than any other manufacturer.

Professional Pesticide Products

The leading pest management distributors rely on Nu-Gro for the best products in the industry.

Animal Health

Fly control increases agricultural industry profitability.

Export

We sell products all over the world.

Specialty Agricultural Market

We provide a host of products.

Canadian Consumer Packaging Sales
($ millions)

A Whole In One.

NU-GRO NAMED EXCLUSIVE SUPPLIER FOR CLUBLINK'S CANADIAN GOLF COURSES.

ClubLink Corporation has entered into an exclusive fertilizer supply agreement with Nu-Gro for all ClubLink courses that will benefit the environment and the companies involved. Both Nu-Gro and ClubLink will develop a technical services program to include soil testing, irrigation water analysis and tissue sampling. This innovative approach will promote a more efficient use of pest control and fertilizer products resulting in a positive impact on the environment.

Our professional group manages the sales, marketing and export of products to a wide variety of specialty markets: professional turf, structural pest management, animal health, mosquito abatement, and specialty agriculture. Contract and custom packaging requirements to the marketplace are also managed by this group.

Professional Turf Fertilizers

Nu-Gro's dominant position worldwide in the controlled release nitrogen market provides a premium fertilizer offering to the golf course and lawn care industries. Nu-Gro owns technology and production facilities that allows the company to control the quality and supply of the main ingredient in fertilizers. This combined with the quality insecticides and herbicides provided under the Wilson brands, yields a superior product mix that is unmatched in the industry.

Professional Structural Pest Management Market

Nu-Gro is the leading supplier to the structural pest management market, manufacturing and distributing products developed specifically for the pest management companies in Canada. Nu-Gro is the exclusive pest management product distributor for a significant number of our industry partners.

Animal Health

Nu-Gro's product line focuses on fly control in the dairy, beef and pork industries with the objective to assist the agricultural community in elevating livestock profitability.

Mosquito Abatement Market

Nu-Gro's products effectively assist Canadian cities and towns in the management of this annual pest.

Export

Nu-Gro exports quality professional turf and pesticide products worldwide. This market has been growing rapidly and with Nu-Gro's recent acquisition of Wilson, customers will now be offered a wider range of products.

Specialty Agricultural Market

This niche market has allowed Nu-Gro to both strengthen and grow our share because of the wide range of products we are now able to offer.

Growing Forward

NU-GRO TAKES STEPS TO ENSURE FURTHER GROWTH

Nu-Gro's immediate agenda is definitely one of further growth over the next few years. The avenues of success that will continue to be explored include improved market share, market expansion, and acquisitions. Today's lawn and garden industry is being profoundly impacted by demographics. Aging baby boomers represent an exciting opportunity for Nu-Gro. Although their lives are busy, they have the discretionary income to spend a significant amount of money on gardening and leisure activities. This consumer group promises great potential for the sale of fertilizers because the application of these products expedites desired results while reducing the need for lawn and garden maintenance. Our goal is to capture as much share of this market as possible.

With the number of golfers continuing to escalate at a meteoric pace, golf course construction is also witnessing a dramatic increase. Nu-Gro is well positioned to capitalize on the growing demand for high-end fertilizers containing controlled release nitrogen products that are so essential for healthier turf and more nutrient-rich soil. In addition, this market segment will continue to expand in importance as a greater percentage of the population moves into a retirement or semi-retirement lifestyle.

On the acquisition front, on-going efforts in the area of industry consolidation will further enhance Nu-Gro's ability to increase its product lines within existing distribution channels and, at the same time, allow Nu-Gro to leverage its sales, marketing and administration infrastructure over a larger revenue base.

All in all, the outlook for the future is very positive. Current business is being carefully nurtured, and new seeds of opportunity are being planted. In the coming year, Nu-Gro will continue to solidify its industry leadership through the consistent provision of high quality, competitively priced, and environmentally responsible products that meet the needs of consumers everywhere.

Consolidated Financial Statements

The Nu-Gro Corporation

September 30, 1998

During 1998 Nu-Gro continued its rapid growth rate and strong acquisition record. Effective March 31, 1998, Nu-Gro increased its ownership in Wilson Laboratories Inc. ("Wilson") from 20% to 100%. On April 30, 1998, the minority interest in Nu-Gro Technologies, Inc. was purchased. The assets associated with the IB Nitrogen business were acquired on August 31, 1998.

Sales were up in fiscal '98 by $30 million (50%). Growth via acquisition accounted for $18 million of the sales increase, with the Wilson acquisition accounting for substantially all of this increase. Included in the 1998 consumer packaging results are six months of the Wilson operating results. Wilson is a national brand manufacturer of over 500 pesticide and fertilizer products. Combining the two companies creates new opportunities in the marketing and distribution of lawn and garden products in Canada.

Internal growth in the existing business accounted for $12 million of the sales increase. Internal growth in the consumer packaging segment was $6 million. We upgraded most of the packaging and expanded the family of C-I-L products to include grass seed and potting soil. Internal growth in the fertilizer raw material segment was $6 million. The acquisitions made during the past three years have strengthened the company's position and allowed us to increase our market share.

Segmented information is presented in note 16 of the audited consolidated financial statements and a discussion of the operating results, risks and uncertainties is presented according to these segments.

CONSUMER PACKAGING

Nu-Gro sells and distributes four distinct product lines:

Lawn and Garden Fertilizers represent 37% of total consumer packaging sales. These products are available in a variety of formulas and particle sizes to meet the unique needs of each market. The products are sold through major retail chains, garden centres and in the golf course and professional turf market. Competitors in this market are Scotts, Nutrite, Vigoro and So-Green. Nu-Gro's C-I-L fertilizers are the market leader with an estimated 35% of the total market. Nu-Gro enjoys a competitive advantage over its competition because we have manufacturing facilities and the associated technology to produce controlled release nitrogen (CRN). CRN is a major ingredient in lawn and garden fertilizers, which makes the grass greener, longer. Most of the other fertilizer ingredients are commodities, and prices are based in US currency and subject to fluctuations.

Pesticides were acquired as part of the acquisition of Wilson. These products represent 33% of total consumer packaging sales. The products are marketed under the Wilson and C-I-L brands to the same customers represented by the fertilizer business. Competitors in this product line include Green Cross and Laters brands. Key raw material ingredients are available to us under supply agreements with the base manufacturers.

Horticultural products represent 15% of total consumer packaging sales. These products include soil, manure, triple mix and decorative stone products. By offering customers a wide selection of products they are able to combine shipments of horticultural and fertilizer products and reduce the unit freight costs. Nu-Gro considers its distribution network and ability to mix loads of soil and fertilizer a key competitive advantage in the lawn and garden marketplace.

Cat Litter products represent 15% of total consumer packaging sales. Cat litter is packaged with the same equipment used to package fertilizer. The product line complements the seasonal aspects of the lawn and garden business. Cat litter material is supplied under a long term supply agreement with American Colloid and is based in US currency.

Nu-Gro markets products under various brand names with C-I-L as the leading brand. In 1991, Nu-Gro entered a 20 year licence agreement with ICI for the rights to use this trademark.

FERTILIZER RAW MATERIAL SEGMENT

Nu-Gro manufactures four types of controlled release nitrogen (CRN) products.

Sulphur Coated Urea (SCU) is manufactured in Courtright, Ontario. Our plant is located within Terra's world scale nitrogen facility. Terra supplies the urea under a ten year supply agreement, which was negotiated as part of the SCU acquisition in October, 1996. Terra's urea facility has the ability to produce a higher quality urea substrate which improves the quality of the SCU. Sharing the same site reduces the handling and freight costs associated with the product and provides Nu-Gro with a cost advantage over its competitors.

Nitroform is manufactured under a five year exclusive supply agreement with Aqualon Company, a division of Hercules, Inc., located in Louisiana, Missouri. Under the terms of the agreement that commenced in July, 1996, the company is committed to an annual manufacturing fee of $3,360,000 (US $2,200,000). The agreement is automatically renewed for successive two year terms at the end of the five year term.

Nutralene is manufactured in Gloversville, New York. Subsequent to year end, Nu-Gro announced that they have strengthened control of the sales and distribution of this product line that had been successfully marketed by Scotts since October, 1996.

IB Nitrogen is manufactured in Mobile, Alabama. These assets were acquired on August 31, 1998 and accordingly, one month of activity is reflected in the 1998 financial results. Annualized sales of IB Nitrogen are expected to be $10 million.

The main ingredient in CRN products is urea, which is the nitrogen source. Urea is a commodity and its price is affected by worldwide supply and demand. Historically, we have been able to maintain a spread over the nitrogen prices for CRN products, even if the prices of nitrogen increase. Our competitors in the North American CRN market include Lesco and Pursell among others. They produce CRN for their own consumption in products packaged and sold in the marketplace. Nu-Gro does not package and sell product in the US marketplace, which allows us to differentiate ourselves from our US competitors, by not competing with our blender customers.

OUTLOOK

The 50% increase in sales and 75% increase in net earnings are results we are pleased with and they have partially been recognized in the closing share price of $3.05 which is up 13% in a year when the TSE is down 20%. In 1999 we expect sales to increase a total of $27 million. $12 million due to the additional six months of results from Wilson, $9 million due to the 11 months of activity from IB Nitrogen and the $6 million due to the addition of the Scotts PSCU to our CRN product line. We are optimistic that we can maintain our percentage of net earnings to total sales, which is 5% in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operating activities has improved $3.5 million due substantially to improved profitability. Working Capital required an additional $0.95 million of cash due to the increases in receivables and inventory to support the internal growth in the business.

Cash was reinvested in the business. The details of the acquisitions of $19 million are included in note 2 of the financial statements. The three acquisitions included:

	(million $)
1. Increase in ownership of Wilson Labs from 20% to 100%	$13.3
2. Acquisition of minority interest	2.1
3. Acquisitions of assets of IB Chemical Co.	3.6
	$19.0

The purchase of capital assets was approximately equal to depreciation and amortization expense. The major assets included $0.6 million for new computer hardware and software and $0.4 million for new print plates required to change the packaging of the C-I-L family of products.

Financing was required to fund the $13.3 million Wilson Investment plus the repayment of $2.4 million of Wilson long term debt assumed. The total of $15.7 million was financed with the issuance of $4.7 million of debentures, $5.0 million of long term debt and $6.0 million of Wilson bank debt that was assumed on the acquisition. It is substantially the $6.0 million of bank debt assumed that is reflected in the total net decrease in cash position at year end.

The $4.7 million of debentures are convertible at a rate of $3 per share into the common shares of Nu-Gro. Nu-Gro can require the conversion of the debentures into shares if the share price averages at least $3.75 for at least 20 trading days.

In addition to the $5.0 million of long term debt advanced for the Wilson acquisition noted above, Nu-Gro borrowed an additional $2.1 million to finance the IB Chemical Co. acquisition.

The repayment of long term debt in 1998 is higher than 1997, because it includes the repayment of the $2.4 million of Wilson long term debt assumed as part of the Wilson acquisition.

YEAR 2000

Nu-Gro has been actively working on the year 2000 issue since May, 1997. New software was selected based on the unanimous recommendation of a cross functional selection team in October 1997. The new software has been tested and is warranted by the vendor as Year 2000 compliant. New hardware was purchased and the software was installed in January, 1998. An implementation team has been implementing each of the modules of the software and the last module is scheduled to be implemented in the summer of 1999. Included in the 1998 purchase of capital assets is $0.6 million related to the hardware and software purchases in 1998.

The Company has contacted its major suppliers and customers and is not aware of any Year 2000 compliance issues that would impact normal business operations. Progress towards the completion of the plan to address the Year 2000 issue is a standing agenda item on quarterly board meetings. The Company expects to successfully implement the systems and programs necessary to address the year 2000 issues. However, there can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of the necessary changes.

HEALTH, SAFETY AND ENVIRONMENT

The corporation is in compliance with existing environment and health and safety legislation and includes these items as a standing agenda item on all meetings of the Board of Directors.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation of financial information is an integral part of management's responsibilities, and the accompanying financial statements and other financial and statistical information contained in this annual report are the responsibility of the management of the Nu-Gro Corporation.

Nu-Gro maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded as authorized, that assets are properly safeguarded and accounted for, and that financial records are reliable for the preparation of financial statements in accordance with generally accepted accounting principles.

Nu-Gro's external auditors, Ernst & Young, whose appointment was recommended by the audit committee and ratified at the annual general meeting, and Nu-Gro's audit committee have free access to each other, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal accounting controls and the quality of financial reporting. The financial statements have been examined by the auditors and they have reported thereon.

Upon the recommendation of the audit committee, the financial statements have been approved by the Board of Directors.

John D. Hill, President & C.E.O.

Greg Flanagan, C.A., Chief Financial Officer

November 4, 1998.

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THE NU-GRO CORPORATION

We have audited the consolidated balance sheets of The Nu-Gro Corporation as at September 30, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young, Chartered Accountants, Kitchener, Canada

November 4, 1998.

CONSOLIDATED BALANCE SHEETS

As at September 30

	1998	1997
	$	$
ASSETS		
Current		
Cash		2,098,413
Accounts receivable [note 3]	**12,588,801**	6,658,001
Inventories [note 4]	**16,606,256**	8,220,227
Prepaid and other expenses	**469,832**	132,927
Total Current Assets	**29,664,889**	17,109,568
Investment [note 2[b]]		1,285,432
Capital assets [note 5]	**20,486,330**	13,232,912
Trademarks and goodwill [note 6]	**11,378,615**	3,950,208
Total Assets	**61,529,834**	35,578,120
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 7]	**4,502,510**	—
Accounts payable	**14,389,137**	8,525,432
Income taxes payable	**1,126,494**	1,509,976
Current portion of long-term liabilities [notes 8 & 9]	**3,634,985**	1,409,080
Total Current Liabilities	**23,653,126**	11,444,488
Long-term debt and obligation under capital leases [note 8]	**10,080,948**	6,152,157
Convertible debentures - liability portion [note 9]	**974,493**	—
Future income taxes [note 11]	**1,697,965**	740,000
	36,406,532	18,336,645
Non-controlling interest [note 2[a]]		907,466
Shareholders' Equity		
Convertible debentures - equity portion [note 9]	**3,599,998**	—
Share capital [note 10]	**9,873,172**	9,504,862
Cumulative translation adjustment	**328,528**	56,945
Retained earnings	**11,321,604**	6,772,202
Total Shareholders' Equity	**25,123,302**	16,334,009
Total Liabilities And Shareholders' Equity	**61,529,834**	35,578,120

See accompanying notes

On behalf of the Board:

John D. Hill, President & C.E.O.

Austin C. Beutel, Chairman

CONSOLIDATED STATEMENTS OF INCOME

Years ended September 30

	1998	1997
	$	$
SALES	**91,652,911**	61,544,865
Cost of sales	**69,725,996**	48,990,074
Gross margin	**21,926,915**	12,554,791
EXPENSES		
Sales, administration and marketing	**10,082,141**	5,390,372
Depreciation and amortization [notes 5 and 6]	**2,386,458**	1,692,635
Interest on long-term debt	**817,507**	658,626
Interest - other	**327,221**	302,227
Loss (income) from equity investment [note 2[b]]	**119,212**	(101,380)
	13,732,539	7,942,480
Income before income taxes and non-controlling interest	**8,194,376**	4,612,311
Income taxes [note 11]	**3,204,330**	1,738,800
Income before non-controlling interest	**4,990,046**	2,873,511
Non-controlling interest [note 2[a]]	**226,646**	201,086
Net income	**4,763,400**	2,672,425
Accretion on equity component of convertible debentures [net of income taxes of $76,000]	**(113,998)**	—
Net earnings applicable to common shares	**4,649,402**	2,672,425
Earnings per common share [note 12]		
Basic	**.40**	.24
Fully diluted	**.37**	.23

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended September 30

	1998	1997
	$	$
Retained earnings, beginning of year	**6,772,202**	4,101,314
Net income	**4,763,400**	2,672,425
Dividends paid on preferred shares		(1,537)
Accretion on equity component of convertible debentures [net of income taxes of $76,000]	**(113,998)**	—
Convertible debentures issue costs	**(100,000)**	—
Retained earnings, end of year	**11,321,604**	6,772,202

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended September 30

	1998	1997
	$	$
OPERATING ACTIVITIES		
Net income	**4,763,400**	2,672,425
Add (deduct) non-cash items		
Depreciation and amortization	**2,386,458**	1,692,635
Future income taxes	**536,965**	100,000
Non-controlling interest	**226,646**	201,086
Loss (income) from equity investment	**119,212**	(101,380)
	8,032,681	4,564,766
Changes in non-cash working capital items	**(837,132)**	115,928
CASH PROVIDED BY OPERATING ACTIVITIES	**7,195,549**	4,680,694
INVESTING ACTIVITIES		
Purchase of capital assets	**(2,537,512)**	(1,280,841)
Acquisitions [note 2]	**(19,025,200)**	(6,439,331)
CASH (APPLIED TO) INVESTING ACTIVITIES	**(21,562,712)**	(7,720,172)
FINANCING ACTIVITIES		
Issuance of common shares for cash [note 10]	**80,310**	4,029,625
Repayment of shareholder loan		(750,000)
Proceeds on issuance of convertible debentures	**4,700,000**	—
Convertible debenture issue costs	**(100,000)**	—
Dividends paid on preferred shares		(1,537)
Scheduled redemption of preferred shares		(236,250)
Proceeds on long-term debt and obligation under capital leases	**7,145,000**	2,310,000
Repayment of long-term debt and obligation under capital leases	**(4,059,070)**	(1,508,370)
CASH PROVIDED BY FINANCING ACTIVITIES	**7,766,240**	3,843,468
NET CASH (APPLIED) PROVIDED DURING YEAR	**(6,600,923)**	803,990
Cash, beginning of year	**2,098,413**	1,294,423
(BANK INDEBTEDNESS) CASH, END OF YEAR	**(4,502,510)**	2,098,413

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its wholly-owned Canadian subsidiaries SCU Nitrogen Inc., Wilson Laboratories Inc., Nu-Gro IP Inc. and its wholly-owned American subsidiaries, Nu-Gro America Corp., Nu-Gro Technologies Inc., and IB Nitrogen Inc. The purchase method has been used to account for all acquisitions and the results of operations of businesses acquired are included only from the effective date of their respective acquisitions.

The investment in shares of Wilson Laboratories Inc. [20% owned] was accounted for using the equity method prior to the acquisition of the remaining 80% of the outstanding shares on March 31, 1998 [note 2 [b]].

INVENTORIES

Inventories are valued at the lower of cost and market value with cost being determined on the first-in, first-out basis. Finished goods cost includes an applicable share of direct labor and manufacturing expenses. Market value is net realizable value for packaged goods and is replacement cost for raw materials, packaging and bulk fertilizer.

CAPITAL ASSETS

Capital assets are carried at cost. Depreciation is provided on the straight-line basis over the expected lives of the assets commencing when the asset is available for use, using the following annual rates:

Buildings and improvements	10 - 20 years
Machinery and equipment	5 - 10 years
Print plates	3 years
Computer hardware	5 years
Computer software	3 years

Buildings and improvements and machinery and equipment under capital lease are amortized at the same rates as described above.

TRADEMARKS AND GOODWILL

Goodwill, representing the excess of purchase price over the fair value of the net assets acquired is being amortized on a straight-line basis over a period of 20 years. The carrying value is assessed on an ongoing basis by comparison to the estimated discounted future cash flows of the acquired businesses. Any permanent impairment in the value of goodwill is written off against earnings.

Trademarks are carried at cost. Amortization is provided on a straight-line basis over 20 years, which is the expected life of the asset.

INCOME TAXES

Effective October 1, 1997, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method of tax allocation is used for accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated. The Company has determined that adopting the new recommendations has no impact on the income tax assets and liabilities reported in prior years.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign operations, which are considered self-sustaining, are translated into Canadian dollars as follows:

Assets and liabilities - at the rates of exchange in effect at the balance sheet date.

Revenue and expense items - at rates of exchange approximating the average rates of exchange for the year.

Exchange gains and losses arising on translation of the accounts of the foreign operations are deferred and taken to the currency translation account as part of shareholders' equity.

Transactions of the Company denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Resulting exchange gains or losses are included in income except for unrealized gains or losses on long-term debt, which are deferred and amortized over the remaining life of the debt.

2. ACQUISITIONS

a] On April 30, 1998, the Company acquired the shares and debt of Nu-Gro Technologies Inc. which were held by the minority shareholder. The cash purchase price of $2,145,000 [$1,500,000 U.S.] was in excess of the carrying value of the non-controlling interest and accordingly, gave rise to goodwill of $1,060,000.

The terms of the acquisition provided for additional consideration based on the financial performance of Nu-Gro Technologies Inc. during each of its 1998 and 1999 fiscal years. Additional goodwill of $268,000 [$176,000 U.S.] was recorded during 1998 relating to this obligation.

b] On March 31, 1998, the Company acquired 100% control of Wilson Laboratories Inc. by purchasing an additional 80% interest in that business. Details of the acquisition are as follows:

	$
Net assets acquired at assigned values	
Capital assets	3,565,000
Trademarks	2,500,000
Goodwill	3,350,000
Working capital, excluding bank indebtedness assumed	7,221,200
	16,636,200
Long-term liabilities	(2,360,000)
Future income taxes	(1,015,000)
	13,261,200

	$
Funded By	
Bank indebtedness assumed	6,041,000
Convertible debentures	1,200,000
Long-term debt	5,000,000
Warrants	20,000
Cash	1,000,200
	13,261,200

2. ACQUISITIONS cont'd

c] On August 31, 1998, the Company entered into an asset purchase agreement with IB Chemical Company to acquire the inventory, capital assets, intellectual property and goodwill to operate a business which manufactures and distributes Isobutylidenediurea. The purchase price of $3,619,000 [$2,372,000 U.S.] was assigned to the assets acquired, as follows:

	$
Inventory	369,000
Capital assets	2,914,000
Goodwill	336,000
Purchase Price	3,619,000

d] During 1997, the Company entered into an asset purchase agreement with Terra Nitrogen Inc. to acquire inventory, goodwill and other assets necessary to operate a sulphur coated urea business. The purchase price was financed through long-term debt and proceeds on issuance of common shares. The cost of the acquisition was allocated as follows:

	$
Current assets	1,142,530
Capital assets	4,797,000
Goodwill	1,313,569
	7,253,099
Liabilities assumed	(813,768)
Cash Portion Of Purchase Price	6,439,331

e] The terms of the acquisition of the Nutralene and Nitroform trademarks and related business provided for additional consideration [based on the net sales amount] should the acquired business exceed certain cumulative net sales amounts during the first five years of ownership. During 1998, no additional consideration has been provided. [Nil consideration in 1997].

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

CONCENTRATION OF CREDIT RISK

The Company's accounts receivable relate primarily to product sales to a range of customers in Canada and United States. Credit limits, credit evaluation and account monitoring procedures are utilized to minimize the risk of loss. Two customers represent 22% of the accounts receivable balance at September 30, 1998. One customer accounted for 11% of the year-end balance at September 30, 1997.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, bank indebtedness, accounts payable and income taxes payable approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of obligations under long-term debt, capital leases and convertible debentures, calculated at the present value of future contractual payments of principal and interest, discounted at the current market rates of interest available to the Company for debt instruments with similar terms and maturity, approximate their carrying values.

4. INVENTORIES

	1998	1997
	$	$
Raw materials and packaging	**5,665,208**	3,393,589
Bulk fertilizer	**3,607,235**	2,746,159
Packaged goods	**7,333,813**	2,080,479
	16,606,256	8,220,227

5. CAPITAL ASSETS

1998	Cost $	Accumulated Depreciation $	Net Book Value $
Land	895,080	—	895,080
Buildings and improvements	8,077,031	1,788,356	6,288,675
Machinery and equipment	16,552,282	5,887,758	10,664,524
Print plates	1,301,040	478,948	822,092
Computer software/hardware	659,661	—	659,661
Assets under capital lease			
Land	516,040	—	516,040
Building and improvements	968,346	328,088	640,258
Machinery and equipment	47,388	47,388	—
	29,016,868	8,530,538	20,486,330

1997	Cost $	Accumulated Depreciation $	Net Book Value $
Land	620,128	—	620,128
Buildings and improvements	6,210,699	1,445,830	4,764,869
Machinery and equipment	11,009,704	4,661,650	6,348,054
Print plates	497,890	208,632	289,258
Assets under capital lease			
Land	516,040	—	516,040
Building and improvements	968,346	277,418	690,928
Machinery and equipment	47,388	43,753	3,635
	19,870,195	6,637,283	13,232,912

Depreciation and amortization on capital assets is $1,949,885 [$1,491,476 in 1997].

6. TRADEMARKS AND GOODWILL

	1998 **$**	1997 $
Trademarks	**5,361,063**	2,587,500
Goodwill	**6,713,791**	1,595,641
	12,074,854	4,183,141
Less accumulated amortization	**696,239**	232,933
NET BOOK VALUE	**11,378,615**	3,950,208

Amortization on trademarks and goodwill for the year was $436,573 [$201,159 in 1997].

7. BANK INDEBTEDNESS

Collateral for the bank revolving operating line of credit includes a general security agreement covering all assets [other than real estate] and a general assignment of inventories. The Company has available to it an operating line of $22,000,000 at an interest rate of bank prime [7.25% at September 30, 1998] to support the Canadian operating segment and an operating line of $4,578,000 [$3,000,000 U.S.] at an interest rate equivalent to the U.S.$ base rate or Libor loan rate [8% at September 30, 1998] to support the United States operating segment. The balance outstanding on the operating lines of credit as at September 30, 1998 was $2,140,483 [nil in 1997].

8. LONG-TERM DEBT AND OBLIGATION UNDER CAPITAL LEASES

A] LOANS

	1998 **$**	1997 $
Canadian bank term loans payable in monthly principal installments of $128,000 [$90,000 in 1997], plus interest at bank prime to bank prime plus .5%. The term loans mature at dates ranging from July 1999 to September 2005.	**11,353,183**	5,014,690
Capital lease obligations covering real estate in Quebec, bearing interest at 9%, maturing December 1998, net of total interest of $6,034 [$40,000 in 1997].	**346,991**	550,462
Unsecured debenture loan maturing on October 31, 1998, and bearing interest at 12% per annum, payable quarterly.	**828,750**	828,750
United States term loans of $268,661 U.S. [$285,895 U.S. in 1997] payable in monthly installments of $4,667 U.S. including interest of 7%. The loans mature at dates ranging from May 2000 to October 2004.	**409,950**	394,535
Unsecured, non-interest bearing installment loan, net of imputed interest [note 8[b]].	**548,559**	772,800
	13,487,433	7,561,237
Current portion	**3,406,485**	1,409,080
NET LONG-TERM DEBT AND OBLIGATION UNDER CAPITAL LEASES	**10,080,948**	6,152,157

B] INSTALLMENT LOAN

The installment loan is payable in U.S. dollars, in annual minimum installments of $485,760 [$318,343 U.S.] in 1999 and $152,590 [$100,000 U.S.] in 2000 and $50,609 [$33,157 U.S.] in 2001. Netted in the carrying value of the note is imputed interest of $140,400 [$92,000 U.S.] [$193,200 [$140,000 U.S.] in 1997].

C] COLLATERAL

Canadian bank term loans - first collateral mortgage covering properties located in Ontario, Alberta and Alabama and general security agreement [note 7] and security agreement provided by the U.S. subsidiary.

United States loans - security agreement covering all machinery and equipment located in New York and first collateral mortgage covering all real property located in New York and a second charge on all other U.S. assets.

The Company's term lenders and bankers have entered into an intercreditor agreement assigning various securities and priorities to certain loans with respect to the U.S. based assets.

D] REPAYMENT

The following is a schedule of future principal payments on long-term debt including the principal portion on capital lease obligations:

	$
1999	3,406,485
2000	2,716,249
2001	1,824,791
2002	1,415,070
2003	2,359,574
Thereafter	1,765,264

9. CONVERTIBLE DEBENTURES

In December, 1997, the Company issued $3,500,000 of convertible debentures, maturing on November 30, 2002. The debentures have certain prepayment options and pay interest of 6% in the first year and 7.5% per annum in subsequent years. At any time, the holders of the debentures may convert the principal amount, in whole or part, to common shares of the Company at a price of $3.00 per share. The consideration provided on the acquisition of Wilson Laboratories Inc. included $1,200,000 of convertible debentures which mature on March 30, 2003 and in all other respects have terms similar to the debentures issued in December, 1997.

The convertible debentures also include a provision that after the first anniversary of the issue date, the Company has the right to force conversion of the debentures at $3.00 per share, provided that the Company has a 20 trading day weighted average price greater than $3.75 per share and the average dollar trading amount is greater than $30,000 per day during this period. On the basis that management believes that the conditions inherent in this option can be satisfied, the convertible debentures have been classified primarily as an equity instrument with a separate component classified as debt. These components were established at the date of issuance of the convertible debentures, based on their respective fair values. At year-end, the liability and equity components have the following balances:

	1998 $
Liability Component	
Current	228,500
Non-current	974,493
	1,202,993
Equity Component	
Holder conversion option	510,000
Residual	3,089,998
	3,599,998

The liability component represents the present value of the future interest payments discounted at 10% [rate which would have been applicable to non-convertible subordinate debt at the date the debentures were issued]. Interest expense is determined by applying the discount rate against the outstanding liability component.

The equity component represents the value ascribed to both the holders' option to convert the principal balance into common shares and the Company's right to pay the principal amount of the debentures by issuing common shares. The equity component of the debentures is being accreted to the maturity value, at the same effective discount rate, through periodic charges to retained earnings.

10. SHARE CAPITAL

A] AUTHORIZED

The authorized capital of the Company consists of an unlimited number of non-voting preferred shares issuable in series and an unlimited number of common shares.

B] CHANGES IN STATED CAPITAL

	1998 Number of Shares/ Warrants	**$**	1997 Number Shares/ Warrants	$
Preferred Shares - series "A" fixed cumulative dividend of 9.5%				
Balance, beginning of year	—	—	47,250	236,250
Redeemed as scheduled	—	—	(47,250)	(236,250)
Balance, end of year	—	—	—	—
Common shares				
Balance, beginning of year	**11,516,002**	**9,504,862**	8,783,502	5,475,237
Issued pursuant to existing stock options and warrants	**59,850**	**80,310**	482,500	654,625
Issued pursuant to contingent consideration on acquisition [note 10[e]]	**100,000**	**268,000**	—	—
Issued for cash	—	—	2,250,000	3,375,000
Balance, end of year	**11,675,852**	**9,853,172**	11,516,002	9,504,862
Warrants				
Balance, beginning of year	**82,875**	—	82,875	—
Warrants exercised	**(3,250)**	—	—	—
Issued pursuant to acquisition	**400,000**	**20,000**	—	—
Balance, end of year	**479,625**	**20,000**	82,875	—
Total balance, end of year		**9,873,172**		9,504,862

C] STOCK OPTIONS

Stock options have been granted to certain senior employees and directors of the Company for the purchase of common shares. The following options are outstanding at September 30, 1998:

Number of shares subject to option	Range of exercise price per share $	Range of option expiry dates
113,400	1.15 to 1.60	June 9, 1999 to September 24, 2001
275,000	2.90 to 3.55	February 7, 2001 to August 12, 2005

During the year, options were exercised on 56,600 common shares for total proceeds of $77,060.

10. SHARE CAPITAL

D] WARRANTS

There are 479,625 warrants outstanding; 79,625 warrants are exercisable until October 31, 2000 at $1.00 per share with the remaining warrants exercisable until March 31, 2003 at $3.75 per share. During the year, 3,250 warrants were exercised at $1.00 per share.

E] CONTINGENT CONSIDERATION

During 1997, an obligation was recorded in the financial statements for contingent consideration relating to the 1996 acquisition of the Omnicology business. This obligation was satisfied during the year with the issuance of 100,000 common shares of the Company.

11. INCOME TAXES

The Company's provision for income taxes is comprised of:

	1998	1997
	$	$
Income taxes at combined Canadian federal and provincial rates of 44%	**2,592,000**	1,325,000
U.S.A. federal and state rates of 38%	**937,000**	600,000
Increase (decrease) in income taxes applicable to:		
Equity earnings of investee	**52,000**	(44,000)
Manufacturing and processing deduction	**(380,000)**	(210,000)
Other items	**3,330**	67,800
	3,204,330	1,738,800
Represented by:		
Current income taxes	**2,667,365**	1,638,800
Future income taxes	**536,965**	100,000
	3,204,330	1,738,800

The tax effect of the temporary differences that give rise to the liability for future income taxes are as follows:

	1998	1997
	$	$
Capital assets	**1,135,000**	505,000
Trademarks	**675,000**	32,000
Other	**(112,035)**	203,000
TOTAL	**1,697,965**	740,000

12. EARNINGS PER COMMON SHARE

Earnings per common share has been calculated using the weighted average monthly number of common shares outstanding during the year of 11,615,459 [1997 - 11,240,379]. The reported net income has been adjusted for the accretion on the equity component of convertible debentures to arrive at earnings. Fully diluted earnings per common share has been calculated using the weighted average number of common shares assuming conversion of all outstanding warrants, options and debentures. At September 30, 1998, this number was 13,395,539 [1997 - 11,763,254].

13. OPERATING LEASES

The minimum annual lease payments under operating leases for rental of machinery and equipment in aggregate are as follows:

	$
1999	587,654
2000	481,275
2001	330,505
2002	284,133
2003	37,236
Total Future Minimum Lease Payments	1,720,803

14. COMMITMENT

On June 28, 1996 the Company entered into a five year manufacturing agreement with Aqualon Company, Louisiana, Missouri to produce Nitroform. Under the terms of the agreement the Company is committed to an annual minimum manufacturing fee of $3,360,000 [$2,200,000 U.S.].

15. RELATED PARTY TRANSACTIONS

Transactions with related parties not otherwise disclosed in the financial statements are presented below. Amounts outstanding at year-end are not significant.

	1998	1997
	$	$
Transactions with Oakwest Corporation Limited, a shareholder of the Company		
Consulting fees paid	36,000	31,416
Interest paid	—	12,303

16. SEGMENTED INFORMATION

[A] INDUSTRY

[In Thousands]	Consumer Packaging 1998 $	Consumer Packaging 1997 $	Fertilizer Raw Material 1998 $	Fertilizer Raw Material 1997 $	Eliminations 1998 $	Eliminations 1997 $	Total 1998 $	Total 1997 $
Sales to outside customers	**54,062**	30,810	**37,591**	30,735	—	—	**91,653**	61,545
Inter-segment sales	**212**	—	**3,683**	3,116	**(3,895)**	(3,116)	—	—
Total sales	**54,274**	30,810	**41,274**	33,851	**(3,895)**	(3,116)	**91,653**	61,545
Income before the following	**11,744**	5,301	**6,652**	4,600			**18,396**	9,901
%	**22%**	17%	**16%**	14%				
Sales and administration							**10,082**	5,390
Investment loss (income)							**119**	(101)
Net income before tax							**8,195**	4,612
Identifiable assets	**37,542**	17,094	**23,988**	18,484			**61,530**	35,578
Depreciation and amortization	**1,395**	1,001	**991**	692			**2,386**	1,693

[B] GEOGRAPHIC

[In Thousands]	Canada 1998 $	Canada 1997 $	U.S. 1998 $	U.S. 1997 $	Total 1998 $	Total 1997 $
Sales to outside customers	**66,084**	40,452	**25,569**	21,093	**91,653**	61,545
Income before the following	**14,540**	7,135	**3,856**	2,766	**18,396**	9,901
%	**22%**	18%	**15%**	13%		
Sales & administration					**10,082**	5,390
Investment loss (income)					**119**	(101)
Net income before tax					**8,195**	4,612
Identifiable assets	**45,745**	24,644	**15,785**	10,934	**61,530**	35,578
Depreciation and amortization	**1,865**	1,354	**521**	339	**2,386**	1,693

Canadian operations include export sales of $9,600,000 in 1998 and $7,000,000 in 1997.

17. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. The Company has an active program in place to address these issues. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE DIRECTORY

DIRECTORS

Larry M. Agranove,	Director
Austin C. Beutel,	Chairman and Director
Robert J. Beutel,	Director
John D. Hill,	President, C.E.O. and Director
Dale W. Massie,	Director
Frank D. White	Director

OFFICERS

Mark A. Barbera,	Vice President, Sales and Marketing, Nu-Gro Technologies, Inc.
Austin C. Beutel,	Chairman
Greg. J. Flanagan,	Chief Financial Officer and Secretary
John D. Hill,	President and C.E.O.
Sherry A. Stewart,	Vice President, Human Resources and Administration
Sheldon O. Witte,	Vice President and Chief Operating Officer

SOLICITOR

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McCarter, Grespan, Robson, Beynon (Kitchener, ON)

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Toronto Stock Exchange - NU

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Louisana, Missouri (Nitroform®)

Mobile, Alabama (IB Nitrogen)

Marysville, Ohio (PSCU)

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Raw Materials - Controlled Release Nitrogens